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THE FARMERS AND THE RAILROADS

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Secretary of Agriculture

AGRICULTURE is our greatest industry; transportation our second greatest. These two industries are dependent upon one another, and the national well-being is dependent upon both. The failure of either to function efficiently results in widespread inconvenience, financial loss, and quite possibly national disaster.

Agriculture and railroad transportation have developed together, each making the rapid extension of the other possible, and together they have contributed to the rapid development of the country. Perhaps exploitation is a more truly descriptive term of what has happened through the rapid extension of agriculture and transportation during the past sixty years.

Intelligent consideration of the subject assigned to me requires a brief historical review. As population increased along our eastern and southern coasts, the farmers pushed up the navigable streams, using them as a means of transporting their surplus to market. Until the middle of the last century the occupation of the land was proceeding in an orderly manner, farming being extended as the need for food increased, and industry following close after as the country settled up and the cost of transporting manufactured products made it more economical to carry the factory closer to the farm. Frontier agriculture and pioneer settlements were based upon the principle of self-sufficiency, and the commercial surplus was limited to products which were valuable in relation to weight and bulk and could be easily preserved and transported in the pack. Each pioneer farm family itself produced most of the things necessary to its living. The growth of the cities and settlements nearer the sea stimulated the desire for transportation of farm products from farther back in the country and led to the building of canals reaching rich agricultural areas. The building of the Erie Canal, for example, made possible the maintenance of the growing population of New York City, since

it tapped the fertile wheat-producing areas and assured an abundant supply of bread at a reasonably low price.

The development of rail transportation, the invention of labor-saving farm implements and the liberality of the Government in the disposition of its lands resulted in the most remarkable period of agricultural expansion and industrial and urban growth the world has ever seen. In 1860 there were about 30,000 miles of railroads in operation, mostly east of the Mississippi. By 1900 there were almost 200,000 miles. In 1860 there were about 407,000,000 acres of land in farms, much of which was not being intensively cultivated. By 1900 the land in farms had more than doubled, and was being much more thoroughly cultivated. Coincident with this development of transportation and expansion of agriculture came the improvement in ocean shipping, bringing the markets of Europe closer by at least one-half because of the reduction in shipping rates. Within the lifetime of one generation, therefore, we opened up a vast agricultural empire and our country became the greatest producer of agricultural surplus in the world. A fertile soil suited to extensive farming operations, the rapid improvement in labor-saving implements, cheap transportation both by rail and water, and ambitious, energetic, hard-working farmers, eager to possess the land, combined to produce a flood of cheap grains and live-stock which brought disaster to the farmers of the east and even compelled important readjustments by farmers in the older settled countries of Europe.

Had our railroads been extended into the west only as the growth of our population made necessary an increased supply of food, it is reasonable to suppose that freight charges would have been fixed at figures which would have made sure of operating costs and a fair return upon the capital invested. Under such conditions it is reasonable to suppose further that manufacturing and industry, and with them a consuming population, would have moved westward following the extension of agriculture. But a different policy was followed. Our people were possessed of a fever to occupy the country. Land grants and subsidies of all sorts were offered for railroad-building, and as these new roads were necessarily dependent for their principal revenue on agricultural tonnage and tonnage on goods

the farmers would buy, freight rates were based on what the traffic would bear, rather than on what might be shown to be a fair charge for the service rendered based on operating costs and interest on the actual investment. Thus rates on grain were fixed at a point which would not discourage the growing of grain, while rates on live-stock were so adjusted as to come just within the point at which the stockman could better afford to ship than to make his stock walk to market. In those days of western development it was the policy of railroad managers to foster agriculture along their various lines, for the very good reason that they depended upon agriculture for a living. Low rates were made for long hauls of farm products. This gave cheap food to eastern industrial centers and gave the railroads long hauls back on manufactured products. The traffic departments of the western roads courted the farmer and stockman. Their products were moved promptly. In the case of live-stock, the shipping time from western points to the central markets was shorter thirty years ago than it is today.

As the country settled up and towns and villages in the west grew into small cities, the policy of low rates for long hauls both of agricultural and manufactured products was continued. Efforts to establish industrial enterprises in great surplus-producing states west of the Mississippi were systematically discouraged, even to the extent of making grossly discriminatory rates against such enterprises. Those were the days before government supervision or control of rates. The railroad manager was a law unto himself, made rates according to his own sweet will, and made and unmade individuals and communities in his own interest and the interest of his own road. He conceived it to be to the advantage of the railroad to keep the farm and the factory as far apart as possible in order that the railroad might haul their respective products the longest possible distances. It was this high-handed policy which caused the enactment of the famous granger laws and later the interstate commerce law and the creation of the Interstate Commerce Commission with government control of rates and practices.

In the foregoing I have tried to make clear that western agriculture has been developed on freight rates made with a view to encouraging the movement of farm products long distances to central processing and consuming markets, such rates

of course being adjusted roughly to the bulk and value of the crop to be moved. It necessarily follows that the character of the farming and the value of the land and improvements were determined by this policy, and that any marked change in the policy, even if adhered to for but a relatively short time, is bound to make necessary profound changes in both agriculture and industry.

During the years from 1890 to 1917 the Interstate Commerce Commission was kept busy hearing appeals from shippers for rate changes and adjustments, and during the latter part of that period the railroads made several appeals to the commission to permit substantial advances in rates. The requests from shippers were mostly for a more equitable adjustment of rates as between communities or regions and as between commodities, in the effort to remove discriminatory rates which were the inevitable result of the purely arbitrary and unscientific methods of rate-making which had been followed during the period of exploitation. It was during this period that we began to form a conception of just railroad rates, based not upon what the traffic would bear but upon a fair return to capital actually invested, or the fair value of the property, plus a return sufficient to cover operating charges and adequate upkeep under competent management. As a necessary preliminary to the determination of such just rates Congress provided for a complete physical valuation of all the railroads of the country, and this stupendous undertaking was begun during the period indicated.

When the railroads were taken over by the government it was with the understanding that they should be assured a net return equal to the average net return of the three years just preceding, which happened to be the most prosperous three-year period the roads had ever experienced. No measures were taken to control wages or the other factors which entered into the cost of operation and maintenance. It was simply another way of applying the utterly vicious cost-plus policy and added much to the burden of debt under which our people will be laboring for a generation yet to come. During this period of government operation prices of most commodities rose to the highest point ever known. Intelligent railroad operation, therefore, would have justified increases in freight

charges fairly comparable with the increases in the values of the commodities, with a view to holding down the amount needed to make good the government guarantee. Some increases in rates were made, but not enough to meet the increase in expenses. Costs of operation were permitted to increase almost without hindrance, and in the case of wages, the largest cost item, with government acquiescence and even encouragement. Thus when the time came to hand the roads back to their owners they were in such condition that they seemed to require very large increases in freight rates if they were to be kept out of the hands of receivers. Just at the time, therefore, when we were entering the period of severe liquidation and prices of commodities and especially of agricultural products were falling with great rapidity, burdensome rate increases were put in force.

The blighting effect upon agriculture can hardly be comprehended. I would not be understood as suggesting that the increases in freight rates were wholly responsible for the unprecedented depression through which our agriculture has been passing and which for a time threatened a financial disaster of nation-wide scope, but these higher rates contributed materially to this depression and if continued will require changes in agriculture and industry of national and international importance. Transportation is an essential part of the process of production. Transportation costs are a part of production costs. Any material advance in the cost of production without a corresponding advance in the price received for the product involves important readjustments. During the past year the farmer has been compelled to accept for his products, whether grain, live-stock, cotton, wool, or fruits and vegetables, prices which are on the average no greater than those which prevailed during the pre-war period, meaning by the latter the five-year period 1910-14 inclusive. For a time the prices of some of the coarse grains were as much as forty per cent below the pre-war average, and the prices offered the farmers in some of the vegetable-growing regions were so low that they did not cover the cost of harvesting and preparing for shipment. During the same period freight rates on agricultural products have been on an average about eighty per cent above the rates which prevailed before the war. An illuminating

illustration of just how the farmer is affected by this condition is furnished by the investigations of the Congressional Commission of Agricultural Inquiry. Four standard implements needed on the western grain and stock farm are a gang plow, a wagon, a corn-harvester and a grain-binder. On August 1, 1913, the cost of these implements at certain points in Kansas and Nebraska was \$490.50, which was equivalent to the farm price of 928 bushels of corn. The freight charge to Chicago on the number of bushels of corn required to purchase these implements at that time was \$122.16. On August 15, 1920, the cost of these implements was \$944. This charge was covered by the price received for 706 bushels of corn, but the freight charge on the corn was \$179.30. On October 15 the cost of the implements had been reduced to \$751, but it required the value of no less than 4,191 bushels of corn to purchase them and the freight on the corn was \$1,051.41. Similar illustrations in unlimited number can be furnished to show the blighting effect upon agriculture of advances in freight rates without regard to the value of the products to be moved.

Perhaps a more understandable way to show the effect upon agriculture of a continuance of the present freight rates is by noting the additional charge per crop-acre which they impose. Under the old rates a great fruit industry was built up in California. It is estimated that the freight charge paid by that State in 1920 was about \$64,000,000. The increase in freight rates during the past four years imposes an additional charge per acre on lemons of \$187.67, which capitalized at 7 per cent would amount to \$2,681; on oranges an additional acre tax of \$192.38, which capitalized would amount to \$2,748.28; on apples \$160.87, which capitalized would amount to \$2,298.14. Approximately the same burden is imposed upon the fruit industry of the entire northwest and the truck industry of the southwest, the source of a large supply of vegetables of all kinds.

In the case of the less valuable crops, such, for example, as corn, wheat, potatoes and cotton, the increased tax per acre imposed by the present freight rates does not seem to be so great when presented in figures, but is in fact relatively as great. For example, the increased rate tax per acre on corn, wheat and oats, and cotton is greater than was the net return

per acre to the farmer during the pre-war period. In the case of potatoes the increased rate tax per acre in Maine amounts to \$31.80, and in Michigan and Louisiana, both great potato-producing regions, the increased rate tax per acre is above \$15, which, because of the lower yield, is relatively as great as the increase in Maine.

When it is remembered that prior to the war agricultural production yielded to the average farmer nothing more than a fair living, and, indeed, less than this had the farmer demanded a fair interest charge on his money invested in land and farming equipment, the impossibility of maintaining production under the imposition of a rate tax as great as has been indicated at once becomes apparent. Either freight rates on agricultural products and on the principal commodities the farmers need to buy must come down quickly to about pre-war levels, or prices of agricultural products must increase sufficiently to equal the increasing freight rates, or there will be profound readjustments in agricultural production, and these will involve readjustments in industry as well.

Cherishing the hope that present high freight rates are temporary, the farmer is struggling to continue his farming operations without material change, and in the meantime casting about for ways by which he may overcome the handicap imposed upon him. The fruit- and truck-growers of the far west and southwest, for example, are turning to water transportation, and with the better adaptation of vessels to their needs may find in his way some measure of relief from the high freights. The wheat-growers of the west also are using the shorter haul to water for export grains. To illustrate what is happening in this respect, fifty-three per cent of the wheat exported from this country in 1913 went out through the Atlantic and Canadian ports. In 1921, only twenty-four per cent passed through the eastern ports. In 1913, the Gulf ports handled thirty-one per cent of our export wheat, and in 1921 slightly more than fifty-nine per cent. Last year the east-and-west rail lines, which formerly handled the bulk of our grain, were running small trains with light loads, while the north-and-south lines in the surplus-producing country, which had formerly handled less than one-third of our export grain, were hauling long trains, heavily loaded, and our southern ports

were congested with cars of grain waiting for ships that they might be unloaded.

If the American farmer is to compete successfully with the Argentine or the Australasian farmer in the markets of Europe, he must be able to lay his products down in Europe at a cost approximately the same as his competitors. The two principal competitive factors entering into the cost of marketing agricultural products in Europe are the cost of production and transportation. I shall not attempt to go into the question of cost of production, but shall confine myself to a comparison of the cost of transportation from the wheat-producing centers of the United States and Argentina to the United Kingdom. It may be well at the outset to point out that while the cost of ocean transportation is an important factor in the cost of marketing agricultural products in foreign countries, it is by no means as important a factor as rail transportation to the seaboard, particularly in the United States, where our producing centers are located much farther from the seaboard than are the producing centers of Argentina, Australia, and other countries that compete with the United States. In Argentina, for example, the average rail haul from the wheat-producing regions to the seaboard is approximately 435 kilometers, or 261 miles. The cost of carrying 1,000 kilograms (2204.6 pounds) of wheat a distance of 500 kilometers (310.6 miles) is \$15.44 Argentine paper, or \$0.15 per bushel in United States money on the basis of the prevailing rate of exchange. With an ocean freight rate from Buenos Aires to Liverpool of \$5.00 per ton, this would make a rate of \$0.134 per bushel, or a combined rail-and-ocean freight rate from the wheat-producing centers of Argentina to the United Kingdom of \$0.284.

In the United States the export freight rate on wheat from Hutchinson, Kansas, to Galveston, Texas, through which a large part of our wheat is exported, is \$0.44½ per 100 pounds, or at the rate of \$0.267 per bushel. The ocean freight rate from Galveston to the United Kingdom is \$0.21 per 100 pounds, or at the rate of \$0.126 per bushel. This makes a combined rail-and-ocean freight rate from Hutchinson, Kansas, to the United Kingdom of \$0.393 per bushel, as compared with a total rail-and-ocean freight rate from the wheat-producing centers of Argentina to the United Kingdom of \$0.284 per

bushel. The wheat producer in Argentina thus has an apparent advantage of approximately \$0.11 per bushel in the cost of transportation alone.

In the case of crops for domestic consumption grown in the great surplus-producing states east of the Rocky Mountains, water transportation is not available. The farmers in these states must use railroads to ship their surplus to market and the continuation of the present high rates must inevitably reduce the tonnage of coarse grains and hay shipped to the east. We hear some criticism of the agricultural schedules of the tariff bill now under consideration by Congress. In point of fact, the duties proposed to be levied upon the principal agricultural products are hardly sufficient to equalize the additional freight tax which already has been imposed upon the farmers of the surplus-producing states. The increase in railroad rates during the past five years has been in effect a differential against our own farmers in favor of the farmers of foreign nations with whom they must compete.

A few examples are given below in order to illustrate concretely the effect that high freight rates, if continued, are certain to have, not only on farming but on the railroads themselves.

In the case of a cheap bulky commodity like potatoes high transportation costs will have an important effect on the distribution of acreage. At present the commercial production of this crop is more or less concentrated in the northern border states, the central states obtaining much of their supply from those to the north of them. But when the freight rate on potatoes from Bangor, Maine, to New York City increases from 25c a hundred pounds in 1913 to 52½c in 1921, a differential is established in favor of the growers in New York, New Jersey, Pennsylvania and Connecticut that will undoubtedly increase the acreage in those states and make necessary a reduction of acreage in the State of Maine. This will deprive the railroads of a large and remunerative traffic. These rates have the effect of decreasing the profit on potatoes in Maine by 25c per hundred pounds, which makes it possible for other regions nearer the market to compete. Since 1913 there has been an increase in rates on Michigan potatoes to New York of 29c or just 100%. A continuation of this rate will have the effect of

decreasing potato acreage in the west and of increasing it in the east, thus cutting off another source of traffic.

The effect on the hay trade is similar. This crop can be grown anywhere that farming is possible. Previous to the war the eastern states obtained a large part of their hay from the Middle West. Already rail shipments of hay eastward have been curtailed.

The cotton belt has hitherto imported most of the hay it requires. The recent increase in freights has so enhanced the price of hay in the south that cotton-growers, if this high price continues, are resolving to produce their own supplies of this necessary commodity. This will deprive many roads of a large and important traffic.

The shipment of fruits and vegetables from the south and from California to eastern and northern cities is an important part of the traffic of many lines of transportation. Even under pre-war conditions large quantities of vegetables were produced under glass near these cities for the winter trade, in competition with California and the south. The present rates for transportation will enable more men to succeed in growing vegetables under glass and this will reduce the tonnage of such commodities shipped from California and the south. This tendency is in fact already noticeable.

A pound of pork represents about ten pounds of corn, and a pound of butter much more. Every increase in transportation rates tends to induce corn-growers to condense their products into meat and butter, thus reducing the tonnage of farm products delivered to the carriers.

The largest yields per acre and the greatest weight per bushel of oats are obtained in our western mountain states. Yet these states have never grown oats except as a supply crop. It is so cheap a product that it will not bear the cost of transportation to distant markets. The commercial production of oats has therefore always been concentrated about the great market centers. Every increase in cost of transportation tends to emphasize this concentration, thus reducing tonnage.

Wheat, because of its higher value per unit of weight, has hitherto been widely grown in the western mountain states. This is the only crop generally available to farmers in that section that is sufficiently high-priced to bear the necessarily

heavy transportation costs. The enormous increase in these costs in recent years may have the effect of materially reducing the acreage of wheat in these states. The land thus vacated will go to forage for dairy cows because butter is sufficiently concentrated to stand the cost of getting it to eastern and even to European markets. In so far as this change takes place, and it is in fact actually taking place, the railroads will lose the difference between the freight on the large volume of grain now shipped and the few pounds of butter than can be made from the land vacated by wheat.

Fortunately it is not necessary for you to accept merely my opinion as to the effect of high transportation costs on agriculture. The accompanying diagram shows the difference in the farm prices of corn, wheat and oats, in the New England States on the one hand, and the West North Central States on the other, by five-year periods from 1871 to 1915, and for 1921. It will be observed that the differences in prices east and west gradually decreased until 1915. Since that time they have greatly increased and are now approximately as wide apart as they were back in the seventies. In the case of oats the difference is actually greater. It will be observed that this great spread in prices between the east and the west since 1915 is coincident with the recent increase in freight rates.

While the decrease in these differences was going on because of decrease in transportation costs, there was a rapid reduction in acreage of the cereals in New England, amounting between 1880 and 1909 to 46%. Following the Civil War the difference in prices east and west was sufficiently great to justify the New England dairyman in growing grain for feed; but as the cost of getting grain from the west fell it became more and more advantageous to the New England dairyman to buy his concentrated feed. This accounts for the reduction in the acreage of cereals. That the New England farmer, if present conditions continue, will go back to growing grain is shown by the fact that during the period of high prices prevailing in war times the acreage of wheat in New Hampshire increased from practically nothing to 1,400, and oats increased from 11,000 to 15,000 acres. The acreage of rye more than doubled. In Vermont wheat increased from 700 to 11,000 acres and oats from 71,500 to 83,100 acres. A similar increase occurred in

Massachusetts. It is true this increase occurred under high transportation rates, but the high prices of farm products at the time made these rates relatively no greater than they had

PRICES IN PRODUCING AND CONSUMING SECTIONS COMPARED

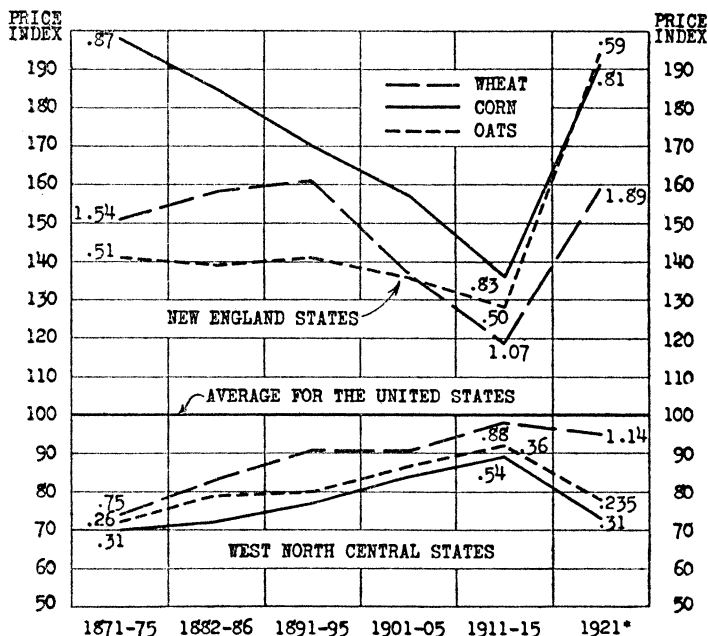
INDEX OF FARM PRICES OF CORN, WHEAT AND OATS.
UNITED STATES, NEW ENGLAND AND WEST NORTH CENTRAL STATES.

5 YEAR AVERAGES OF DECEMBER FIRST PRICES.

1871-1915 and 1921.

100 = AVERAGE FOR UNITED STATES.

Small figures on chart are actual prices.



*Wheat monthly average for year. Corn and oats Dec. 1.

been before the War. The case is different now, for the prices of farm products are lower. There appears to be no escape from the conclusion that unless there is a material reduction in cost of transportation, New England will soon be producing

again the concentrated feed she requires. The loss in profit to the railroads this will occasion is no small item to many of the roads supplying this section of the country.

To discuss in detail the effects upon agriculture and industry in general of the advances in freight rates of the past four years would require hours and days rather than minutes. In brief, if the present high rates are continued for any length of time their probable effect will be:

First, to favor the farmers of South America and Australia at the expense of our own farmers, and all the more so because of the substantial decreases in ocean rates.

Second, to keep prices of farm products in the large surplus-producing states at figures lower than are justified by the investment in land and equipment and cost of farm production, except during years of short crops.

Third, to prolong the period of dissatisfaction among farmers and encourage advocates of economic fallacies of all sorts.

Fourth, to improve the position of eastern truck- and fruit-growers, but also to add considerably to the cost of production of milk and dairy products, because of the advanced prices of hay and coarse grains necessarily shipped in from the west.

Fifth, gradually to shift industrial enterprises westward, nearer the surplus food producing territory.

Sixth, to promote sectional rather than national spirit and make more and more difficult large national policies with respect to international affairs.

No good citizen can find comfort or satisfaction in contemplating such results.

I am not making a special plea for the farmer as against the railroad. The relation between agriculture and transportation is so very intimate and dependent that neither can afford to acquiesce in a condition which seriously affects the other. They must work together in harmony and understanding. The important point I am trying to make is this: That this nation has been built up by a system of low railroad rates designed to encourage the movement of our surplus agricultural crops long distances to manufacturing, industrial and business centers, with a corresponding return haul of manufactured products, and that a sudden reversal of this theory of rate-making

results in great economic injustice and if persisted in will keep us in a state of confusion and agricultural and business uncertainty for a prolonged period. The need of permitting the railroads to charge rates sufficiently high to cover reasonable costs of operation and maintenance and yield a fair return upon the capital invested is so obvious that it must at once be conceded. Both commerce and agriculture require efficient transportation. But the folly of undertaking to establish such rates wholly without consideration of their disastrous effect upon agriculture, the greatest industry of the country, is now apparent to everyone.

The most hopeful sign at the present time is the apparent recognition of the railroad management that our present high rates cannot be continued without disaster to the railroads themselves, and that rates must come down to a point not far, if any, above the pre-war levels. Railroad management should have the whole-hearted support of all right-minded and clear-thinking people in taking the steps which will make it possible to bring about the necessary reduction.

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